

CHAPTER 54  
FACILITY PARTICIPATION

[Prior to 7/1/83, Social Services[770] Ch 54]  
[Prior to 2/11/87, Human Services[498]]

**441—54.1(249) Application and contract agreement.** Each facility desiring to participate in the state supplementary assistance program must enter into a contract with the department of human services and agree to the provisions as enumerated in Form PA-1108-6, Application and Contract Agreement for Residential Care Facilities. The effective date of the contract shall be the first of the month that the Application and Contract Agreement for Residential Care Facilities, signed by the administrator of the facility, is received by the department. No payment shall be made for care provided before the effective date of the contract. The contract shall be in effect until the department ceases to participate in the program, until either party gives 60 days' notice of termination in writing to the other party, or until there is a change in ownership. The facility shall notify the department within 30 days of a change in ownership, a change in the number of beds or a change in administrator.

This rule is intended to implement Iowa Code section 249.12.

**441—54.2(249) Maintenance of case records.** A facility must maintain a case folder for each individual residing in the facility which contains the following:

1. Contract between the facility and the resident on Form PA-2365-6, Admission Agreement.
2. Physician's statement certifying that the resident does not require nursing services.
3. Proof of expenditures from resident's "personal needs" allowance.

This rule is intended to implement Iowa Code section 249.12.

**441—54.3(249) Financial and statistical report.** All facilities wishing to participate in the program shall submit a Financial and Statistical Report, Form AA-4036-0, to the department. The reports shall be based on the following rules.

**54.3(1) Failure to maintain records.** Failure to adequately maintain fiscal records, including census records, medical charts, ledgers, journals, tax returns, canceled checks, source documents, invoices, and audit reports by or for a facility may result in the penalties specified in subrule 54.8(1).

**54.3(2) Accounting procedures.** Financial information shall be based on that appearing in the audited financial statement. Adjustments to convert to the accrual basis of accounting shall be made when the records are maintained on other accounting basis.

**54.3(3) Submission of reports.** The report shall be submitted to the department of human services no later than three months after the close of the facility's established fiscal year. Failure to submit the report within the three-month period shall reduce payment to 75 percent of the current rate. The reduced rate shall be paid for no longer than three months, after which time no further payments shall be made.

**54.3(4) Payment at new rate.** When a new rate is established, payment at the new rate shall be effective with services rendered as of the first day of the month in which the report was received by the department of human services. Adjustments shall be included in the payment the third month after the receipt of the report.

**54.3(5) *Accrual basis.*** Facilities not using the accrual basis of accounting shall adjust recorded amounts to the accrual basis. Records of cash receipts and disbursements shall be adjusted to reflect accruals of income and expense.

**54.3(6) *Census of public assistance recipients.*** Census figures of public assistance recipients shall be obtained on the last day of the month ending the reporting period.

**54.3(7) *Patient days.*** In determining in-patient days, a patient day is that period of service rendered a patient between the census taking hours on two successive days, the day of discharge being counted only when the patient was admitted that same day.

**54.3(8) *Opinion of accountant.*** The department may require that an opinion of a certified public accountant or public accountant accompany the report when adjustments made to prior reports indicate disregard of the certification and reporting instructions.

**54.3(9) *Calculating patient days.*** When calculating patient days, facilities shall use an accumulation method.

*a.* Census information shall be based on a patient status at midnight each day. A patient whose status changes from one class to another shall be shown as discharged from the previous status and admitted to the new status on the same day.

*b.* When a recipient is on a reserved bed status and the department of human services is paying on a per diem basis for the holding of a bed, or any day a bed is reserved for a public assistance or nonpublic assistance resident and a per diem rate for the bed is charged to any party, reserved days shall be included in the total census figures for in-resident days.

**54.3(10) *Revenues.*** Revenues shall be reported as recorded in the general books and records. Expense recoveries credited to expense accounts shall not be reclassified in order to be reflected as revenues.

*a.* Routine daily services shall represent the established charge for daily care. Routine daily services are those services which include room, board, and such services as supervision, feeding, and similar services.

*b.* Revenue not related to resident care shall be applied in reduction of the related expense.

*c.* Investment income adjustment is necessary only when interest expense is incurred, and only to the extent of the interest expense.

*d.* Accounts receivable charged off or provision for uncollectible accounts shall be reported as a deduction from gross revenue.

**54.3(11) *Limitation of expenses.*** Certain expenses that are not normally incurred in providing resident care shall be eliminated or limited according to the following rules.

*a.* Federal and state income taxes are considered in computing the fee for services for proprietary institutions.

*b.* Fees paid directors and nonworking officer's salaries are not allowed as reimbursable costs.

*c.* Bad debts are not an allowable expense.

*d.* Charity allowances and courtesy allowances are not an allowable expense.

*e.* Personal travel and entertainment are not allowable as reimbursable costs. Certain expenses such as rental or depreciation of a vehicle and expenses of travel which include both business and personal costs shall be prorated. Amounts which appear to be excessive may be limited after consideration of the specific circumstances. Records shall be maintained to substantiate the indicated charges.

(1) Commuter travel by the owner(s), owner-administrator(s), administrator, nursing director or any other employee is not an allowable cost (from private residence to facility and return to residence).

(2) The expense of one car or one van or both designated for use in transporting patients shall be an allowable cost. All expenses shall be documented by a sales slip, invoice or other document setting forth the designated vehicle as well as the charges incurred for the expenses to be allowable.

(3) Each facility which supplies transportation services as defined in Iowa Code section 324A.1, subsection 1, shall provide current documentation of compliance with or exemption from public transit coordination requirements as found in Iowa Code chapter 324A and 761—Chapter 910 of the department of transportation rules at the time of annual contract renewal. Failure to cooperate in obtaining or in providing the required documentation of compliance or exemption after receipt from the Iowa department of transportation, public transit division, shall result in disallowance of vehicle costs and other costs associated with transporting residents.

(4) Expenses related to association business meetings, limited to individual members of the association who are members of a national affiliate, and expenses associated with workshops, symposiums, and meetings which provide administrators or department heads with hourly credits required to comply with continuing education requirements for licensing, are allowable expenses.

(5) Travel of an emergency nature required for supplies, repairs of machinery or equipment, or building is an allowable expense.

(6) Travel for which a patient must pay is not an allowable expense.

(7) Allowable expenses in subparagraphs (2) to (5) above are limited to 6 percent of total administrative expense.

*f.* Entertainment provided by the facility for participation of all residents who are physically and mentally able to participate is an allowable expense except entertainment for which the patient is required to pay is not an allowable expense.

*g.* Loan acquisition fees and standby fees are not considered part of the current expense of patient care, but should be amortized over the life of the related loan.

*h.* A reasonable allowance of compensation for services of owners is an allowable cost, provided the services are actually performed in a necessary function. Adequate time records shall be maintained. Adjustments may be necessary to provide compensation as an expense for nonsalaried working proprietors and partners. Members of religious orders serving under an agreement with their administrative office are allowed salaries paid persons performing comparable services. When maintenance is provided these persons by the facility, consideration shall be given to the value of these benefits and this amount shall be deducted from the amount otherwise allowed for a person not receiving maintenance.

(1) Compensation means the total benefit received by the owner for the services rendered to the facility. It includes salary amounts paid for managerial, administrative, professional, and other services; amounts paid by the facility for the personal benefit of the proprietor; the cost of assets and services which the proprietor receives from the facility; and deferred compensation.

(2) Reasonableness requires that the compensation allowance be such an amount as would ordinarily be paid for comparable services by comparable facilities, and depends upon the facts and circumstances of each case.

(3) Necessary requires that the function be such that had the owner not rendered the services, the facility would have had to employ another person to perform the service, and be pertinent to the operation and sound conduct of the facility.

(4) The maximum allowed compensation for the administrator is \$1,250 per month plus \$13 per month per bed licensed capacity for each bed over 60 not to exceed \$1,775 per month.

*i.* Management fees shall be computed on the same basis as the administrator's salary but shall have the amount paid the resident administrator deducted. When the parent company can separately identify accounting costs, such costs are allowed.

*j.* Depreciation based upon tax cost using only the straight-line method of computation, recognizing the estimated normal life of the asset, may be included as a resident cost. When accelerated methods of computation have been elected for income tax purposes, an adjustment shall be made. For change of ownership, refer to 54.3(12)"*b*" and "*c*."

*k.* Necessary and proper interest on both current and capital indebtedness is an allowable cost.

(1) Interest is the cost incurred for the use of borrowed funds. Interest on current indebtedness is the cost incurred for funds borrowed for a relatively short term. Interest on capital indebtedness is the cost incurred for funds borrowed for capital purposes.

(2) "Necessary" requires that the interest be incurred on a loan made to satisfy a financial need of the provider, be incurred on a loan made for a purpose reasonably related to resident care.

(3) "Proper" requires that interest be incurred at a rate not in excess of what a prudent borrower would have had to pay in the money market on the date the loan was made, and be paid to a lender not related through control or ownership to the borrowing organization.

(4) Interest on loans is allowable as cost at a rate not in excess of the amount an investor could receive on funds invested in the locality on the date the loan was made.

(5) Interest is an allowable cost when the general fund of a provider borrows from a donor-restricted fund, a funded depreciation account of the provider, or the provider's qualified pension fund, and pays interest to such fund, or when a provider operated by members of a religious order borrows from the order.

(6) When funded depreciation is used for purposes other than improvement, replacement or expansion of facilities or equipment related to resident care, allowable interest expense is reduced to adjust for offsets not made in prior years for earnings on funded depreciation. A similar treatment will be accorded deposits in the provider's qualified pension fund where the deposits are used for other than the purpose for which the fund was established.

*l.* Costs applicable to supplies furnished by a related party or organization are a reimbursable cost when included at the cost to the related party or organization. The cost shall not exceed the price of comparable supplies that could be purchased elsewhere.

(1) Related means that the facility, to a significant extent, is associated with or has control of or is controlled by the organization furnishing the services, facilities, or supplies.

(2) Common ownership exists when an individual or individuals possess significant ownership or equity in the facility and the institution or organization serving the provider.

(3) Control exists where an individual or an organization has power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or institution.

(4) When the facility demonstrates by convincing evidence that the supplying organization is a bona fide separate organization; that a substantial part of its business activity of the type carried on with the facility is transacted with others and there is an open competitive market for the type of services, facilities, or supplies furnished by the organization; that the services, facilities, or supplies are those which commonly are obtained by similar institutions from other organizations and are not a basic element of resident care ordinarily furnished directly to residents by such institutions; and that the charge to the facility is in line with the charge for these services, facilities, or supplies in the open market and no more than the charge made under comparable circumstances to others by the organization for these services, facilities, or supplies, the charges by the supplier shall be allowable costs.

*m.* When the operator of a participating facility rents from a nonrelated party, the amount of rent or lease expense allowable on the cost report shall be based on either of the following methods at the discretion of the operator:

(1) Actual rent expense or portion thereof so that total property cost does not exceed the median property cost of all participating facilities as adjusted annually based on cost reports on file with the department as of June 30 each year.

(2) The cost of the facility amortized over its expected useful life plus other owner's expenses and a reasonable rate of return, not to exceed actual rent payments.

When the operator of a participating facility rents or leases the building from a related party, the amount of rent or lease expense allowable on the cost report shall be no more than the amortized cost of the facility plus other owner's expenses.

Whenever owner's costs are used as the basis for allowable rental costs, the owner must be willing to provide documentation of these costs.

*n.* Depreciation, interest and other capital costs attributable to construction of new facilities, expanding existing facilities, or the purchase of an existing facility, are allowable expenses only if prior approval has been gained through the health planning process specified in rules of the public health department, 641—Chapter 201.

**54.3(12)** *Termination or change of owner.*

*a.* A participating facility contemplating termination of participation or negotiating a change of ownership shall provide the department of human services with at least 60 days prior notice. A transfer of ownership or operation terminates the participation agreement. A new owner or operator shall establish that the facility meets the conditions for participation and enter into a new agreement. The person responsible for transfer of ownership or for termination is responsible for submission of a final financial and statistical report through the date of the transfer. No payment to the new owner shall be made until formal notification is received. The following situations are defined as transfer of ownership:

(1) In the case of a partnership which is a party to an agreement to participate in the residential care program, the removal, addition, or substitution of an individual for a partner in the association, in the absence of an express statement to the contrary, dissolves the old partnership and creates a new partnership which is not a party to the previously executed agreement and a transfer of ownership has occurred.

(2) When a participating nursing home is a sole proprietorship, a transfer of title and property to another party constitutes a change of ownership.

(3) When the facility is a corporation, neither a transfer of corporate stock nor a merger of one or more corporations with the participating corporation surviving is a transfer of ownership. A consolidation of two or more corporations resulting in the creation of a new corporate entity constitutes a change of ownership.

(4) When a participating facility is leased, in whole or in part, a transfer of ownership is considered to have taken place.

*b.* Upon change of ownership, the new owner or operator shall furnish the department with an appraisal made by a department-approved appraiser. The appraisal shall be based on market values.

*c.* The new owner or operator shall either continue the previous owner's depreciation schedule or set up a new depreciation schedule using the amount obtained by deducting the depreciation expense incurred since July 1, 1980, from the value of depreciable real property. The value will be the sale price or appraisal value, whichever is less.

**54.3(13) *Payment to new home.*** A new home for which cost has not been established shall receive the prevailing maximum allowable cost ceiling. At the end of three months' operation a financial and statistical report shall be submitted. Subsequent reports shall be submitted from the first day to the last day of the fiscal year.

**54.3(14) *Payment to the new owner.*** An existing facility with a new owner shall continue with the previous owner's per diem rate until a new financial and statistical report has been submitted and a new rate established. The facility shall submit a report for the period from beginning of actual operation to the end of the fiscal year.

**54.3(15) *Basis for reimbursement and upper limits.*** The cost-related per diem rate is calculated by computing the per diem allowable costs from the financial and statistical report, adding an inflation factor on an annual basis to all costs except interest to adjust for inflation, and adding an incentive factor of 52 cents for nonprofit facilities and 70 cents for proprietary facilities. The inflation factor shall not exceed the amount by which the Consumer Price Index for all urban consumers increased during the preceding calendar year ending December 31.

A facility's actual allowable costs when combined with the inflation and incentive factors must not exceed the upper limit established in 441—subrule 52.1(3).

This rule is intended to implement Iowa Code section 249.12 and 1992 Iowa Acts, chapter 1241, section 33, subsection 3.

**441—54.4(249) Goods and services provided.** All facilities participating in the program shall provide residents those goods and services required by the terms of the license issued by the department of inspections and appeals in accordance with Iowa Code chapter 135C and rules promulgated thereto set forth in 481—Chapter 57 and requirements of the department of human services set forth in these rules.

**54.4(1) *Payment accepted.*** The amount of client participation and the payment made through the state supplementary assistance program shall be accepted as payment in full for the required goods and services provided the resident. The facility may seek reimbursement from other sources for goods and services provided that are beyond the goods and services required to be provided by these rules.

**54.4(2) Care, maintenance, general supervision, and personal services.** Each facility as part of providing care, maintenance, general supervision, and personal services shall provide as necessary supervision or assistance with ambulation, grooming, hair washing, shaving, personal hygiene, bathing, getting in and out of bed, dressing, feeding, and with medication that can be self-administered.

**54.4(3) Laundry.** Each facility shall provide personal laundry service to the resident as part of the goods and services paid for through the program.

**54.4(4) Room furnishings.** The facility shall completely furnish the resident's room in accordance with department of inspections and appeals 481—subrule 57.30(4) without additional charge to the resident or person acting on the resident's behalf. When the resident wishes to provide some item or items of room furnishing, the facility may grant the request.

This rule is intended to implement Iowa Code section 249.12.

**441—54.5(249) Personal needs account.** When a facility manages the personal needs funds of a resident, it shall establish and maintain a system of accounting for expenditures from the resident's personal needs funds. The personal needs funds shall be deposited in a single checking account, not commingled with trust funds from any other facility, nor commingled with facility operating funds except for facility funds, not to exceed \$500, deposited to cover bank charges and have in the account name the terms "Resident Trust Funds." The funds shall be deposited in a bank or other institution within the state of Iowa insured by the federal government. Expense for bank service charges for this account is an allowable audit cost under rule 54.3(249) if the service cannot be obtained free of charge. The department shall charge back to the facility any maintenance item included in the computation of the audit cost that is charged to the resident's personal needs when such charge constitutes double payment. Unverifiable expenditures charged to personal needs accounts may be charged back to the facility. The accounting system is subject to audit by representatives of the Iowa department of human services, and shall meet the following criteria:

**54.5(1) Ledger.** Upon admittance, a ledger sheet shall be credited with the resident's total incidental money on hand. Thereafter, the ledger shall be kept current on a monthly basis. The facility may combine the accounting with the disbursement section showing the date, amount given the resident, and the resident's signature. A separate ledger shall be maintained for each resident.

**54.5(2) Expenditures.** When something is purchased for the resident and is not a direct cash disbursement, each such expenditure item in the ledger shall be supported by a signed, dated receipt. The receipt shall indicate the article furnished for the resident's benefit.

**54.5(3) Disbursement.** Personal funds shall be turned over only to the resident, the resident's guardian, or other persons selected by the resident. With the consent of the resident, when the resident is able and willing to give the consent the administrator may turn over personal funds to a close relative or friend of the resident to purchase a particular item. A signed, dated receipt shall be required to be deposited in the resident's files.

**54.5(4) Audit.** The ledger and receipts for each recipient shall be made available for periodic audits by an accredited department representative. Audit certification shall be made by the department's representative at the bottom of the ledger sheet. Supporting receipts may then be destroyed.

**54.5(5) Death.** Upon a recipient's death the funds remaining in the personal needs account shall be treated in the following manner:

- a. The facility shall provide a written statement of the personal needs account to be filed in the case record.
- b. When an estate is opened, the funds shall be submitted to the estate administrator.
- c. When no estate is opened, the funds shall be released to the person assuming responsibility for the recipient's funeral expenses.
- d. When no estate is opened and there are no living heirs, the funds shall be submitted to the department to escheat to the state.

This rule is intended to implement Iowa Code section 249.12.

**441—54.6(249) Case activity report.** A Case Activity Report, Form AA-4166-0, shall be submitted to the department whenever a Medicaid applicant or recipient enters the facility, changes level of care, or is discharged from the facility.

This rule is intended to implement Iowa Code section 249.12.

**441—54.7(249) Billing procedures.** In order to determine the amount of payment to the recipient, the facility shall submit a billing form to the fiscal agent following the month in which service was provided.

**54.7(1) Billing.** When payment is made, the facility will receive a copy of Form AA-4163-0, Payment Register. The original shall be returned to the department as a claim for the next month. Alternatively, the facility may use electronic billing software provided by the fiscal agent.

**54.7(2) Changes.** When there has been a new admission, a discharge, or a claim for a reserved bed, the facility shall also submit Form AA-4164-0, Change Notice, with the claim. Electronic submissions of changes may also be made as provided for by the fiscal agent.

This rule is intended to implement Iowa Code section 249.12.

**441—54.8(249) Audits.**

**54.8(1) Audit of financial and statistical report.** Authorized representatives of the department of human services or the Department of Health and Human Services shall have the right, upon proper identification, to audit, using generally accepted auditing procedures, the general financial records of a facility to determine if expenses reported on the Financial and Statistical Report, Form AA-4036-0, are reasonable and proper according to the rules set forth in rule 54.3(249). These audits may be done either on the basis of an on-site visit to the facility, their central accounting office, or office(s) of their agent(s).

a. When a proper per diem rate cannot be determined, through generally accepted and customary auditing procedures, the auditor shall examine and adjust the report to arrive at what appears to be an acceptable rate and shall recommend to the department of human services that the indicated per diem be reduced to 75 percent of the established payment rate for the ensuing six-month period and if the situation is not remedied on the subsequent Financial and Statistical Report, Form AA-4036-0, the health facility shall be suspended and eventually canceled from the residential care facility program, or

*b.* When a facility continues to include as an item of cost an item or items which had in a prior audit been removed by an adjustment in the total audited costs, the auditor shall recommend to the department of human services that the per diem be reduced to 75 percent of the current payment rate for the ensuing six-month period. The department may, after considering the seriousness of the exception, make the reduction.

**54.8(2)** *Audit of proper billing and handling of resident funds.*

*a.* Field auditors of the department of inspections and appeals, or representatives of health and human services, upon proper identification, shall have the right to audit billings to the department of human services and receipts of client participation, to ensure the facility is not receiving payment in excess of the contractual agreement and that all other aspects of the contractual agreement are being followed as deemed necessary.

*b.* Field auditors of the department of inspections and appeals or representatives of health and human services, upon proper identification, shall have the right to audit records of the facility to determine proper handling of resident funds in compliance with rule 54.5(249).

*c.* The auditor shall recommend and the department of inspections and appeals shall request repayment by the facility to either the department of human services or the resident(s) involved, sums inappropriately billed to the department or collected from the resident.

*d.* The facility shall have 60 days to review the audit and repay the requested funds or present supporting documentation which would indicate that the requested refund amount, or part thereof, is not justified.

*e.* If the facility fails to comply with paragraph “*d*,” the audit results may be referred to the attorney general’s office for whatever action may be deemed appropriate.

*f.* When exceptions are taken during the scope of an audit which are similar in nature to the exceptions taken in a prior audit, the auditor shall recommend and the department may, after considering the seriousness of the exceptions, reduce payment to the facility to 75 percent of the current payment rate.

This rule is intended to implement Iowa Code section 249.12.

**441—54.9** Rescinded IAB 8/9/89, effective 10/1/89.

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#### TITLE VI

#### *GENERAL PUBLIC ASSISTANCE PROVISIONS*

#### CHAPTER 55

#### WORK AND TRAINING PROGRAMS

[Prior to 7/1/83, Social Services[770] Ch 55]

[Prior to 2/11/87, Human Services[495]]

Rescinded, effective 7/1/89, see 441—Chapter 93